MANITOBA MINERAL RESOURCES LTD.

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Manager, Investor Identification
Department of Industry, Trade and Technology
Chairperson, Manitoba Mineral Resources Ltd.

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Consulting Mining Engineer

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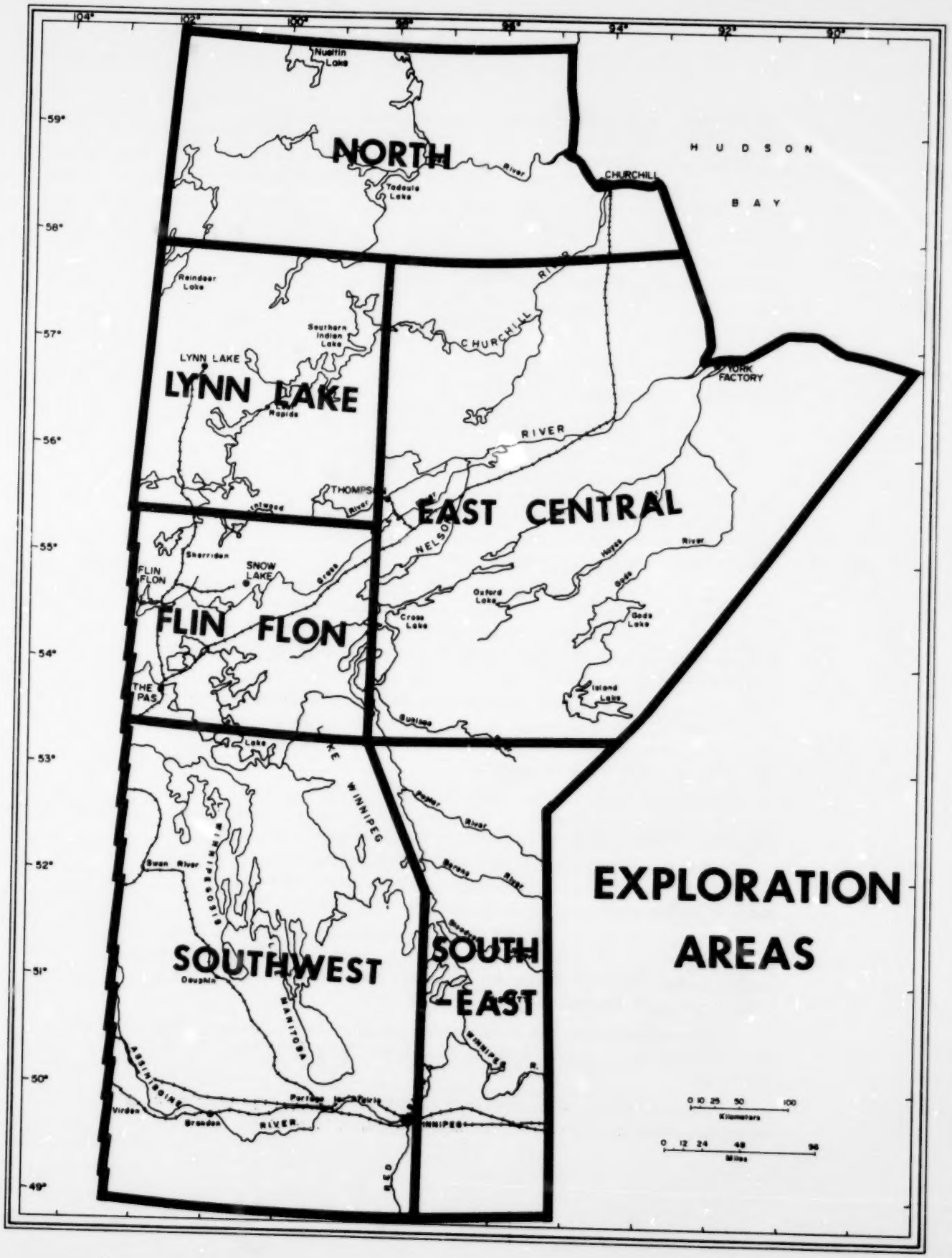
NORTH
LYNN LAKE
EAST CENTRAL
FLIN FLON
SOUTHWEST
SOUTH EAST
EXPLORATION AREAS
HUDSON BAY
CHURCHILL
YORK FACTORY
THE PAS
SNOW LAKE
FLIN FLON
Nueltin Lake
Tadoule Lake
Reindeer Lake
Southern Indian Lake
Island Lake
Cross Lake
Oxford Lake
Gods Lake
Swan River
Virden
Brandon
Portage la Prairie
WINNIPEG
RIVER
MANITOBA
0 10 25 50 100
Kilometers
0 12 24 48 96
Miles

To the Honourable Wilson Parasiuk
Minister of Energy and Mines
Legislative Building
Winnipeg, Manitoba

SIR:

In accordance with Article 8(1), Chapter N33 of The Manitoba Natural Resources Development Act, the Board of Directors herewith submits the Company's Annual Report for the year ended December 31, 1986.

FINANCIAL RESULTS

Net income was $1,042,492 compared with the net loss of $533,244 reported last year.

Improved earnings result from an increase in net income from the Trout Lake mine and a decrease in exploration expenditures. The Company's 27% interest in the Trout Lake mine yielded net income of $3,861,763, an improvement of $1,113,343 over the prior year. Exploration expenditures of $2,819,271 were $462,393 less than the prior year.

Increased Trout Lake earnings are largely attributable to use of larger equipment resulting in increased production and lower unit operating costs. Decreased exploration expenditures reflect a retreat from the historical peak reached in 1985 when an unusually large number of projects simultaneously reached the reconnaissance drilling stage.

Exploration expenditures in the Lynn Lake area were maintained at a high level ($1,959,634 versus $1,927,315 in 1985) in the continuing effort to improve the town's fragile economic base and protect the Province's investment in the area's infrastructure.

MINING OPERATIONS

The Company's share of ore produced from the Trout Lake mine was 172,910 tons grading 2.26% copper, 4.27% zinc, 0.053 oz/ton gold and 0.40 oz/ton silver.

Concentrate sales were $8,720,921 compared with $7,319,971 in the prior year. Improved sales result largely from higher production with a smaller contribution from better zinc and gold prices that more than offset lower copper and silver prices.

Improvement also continued on the cost side. Use of larger equipment reduced cash operating costs to $28.01/ton from $32.96/ton in the prior year.

New ore found by underground exploration largely kept pace with ore extracted leaving proven reserves little changed at year-end.

In December the Trout Lake joint venturers voted, subject to the approval of their respective boards of directors, to sink a shaft at Trout Lake. The shaft and related underground development work is estimated to cost $17 million (MMR share $4.6 million) over a three-year period.

EXPLORATION OPERATIONS

Exploration was done on 58 projects. The private sector participated in 38 of the projects; the other 20 were carried by the Company for its own account. Total project expenditures, including contributions from the private sector, were $4,885,578 of which the Company contributed $2,650,594 (54%).

Manitoba Mineral (55.2%), acting as operator in a joint venture with Hudson Bay Exploration and Development Company Limited (44.8%), completed a major drilling program on the Farley Lake gold project 24 miles east of Lynn Lake. Total drill-indicated geological reserves at December 31, 1986 are:

Category	Tons	Gold oz/ton
Proven	538,000	0.212
Probable	686,000	0.166
	1,224,000	0.186

Another major drilling program is currently underway designed to upgrade reserves in the probable category and increase the reserve base. Further metallurgical and engineering studies are scheduled to permit a comprehensive economic evaluation on which a production decision can be made in 1988.

PERSONNEL

At year-end the full-time staff numbered fourteen, unchanged from the previous year. The Board wishes to thank the members of the staff for their individual contributions to the activities and results summarized in this report.

On Behalf of the Board of Directors,

PAUL R. BROCKINGTON,
Chairperson of the Board

March 2, 1987

Mining Operations — Trout Lake

The Trout Lake mine, four miles northeast of Flin Flon, is a joint venture owned by Hudson Bay Mining and Smelting Co., Limited (44%), Manitoba Mineral Resources Ltd. (27%), Granges Exploration Ltd. (19.8%) and Outokumpu Oy (9.2%). Hudson Bay operates the mine and, under a contract covering the life of the mine, mills the partners' share of ore produced. Copper and zinc concentrates are sold to Hudson Bay under contracts expiring in 1987. Data tabulated below show Manitoba Mineral's 27% share of production and ore reserves.

ORE PRODUCTION

	Tons	Copper %	Zinc %	Gold oz/ton	Silver oz/ton
1986	172,910	2.26	4.27	0.053	0.40
1985	140,121	2.53	4.34	0.050	0.49

PAYABLE METALS PRODUCED

	Copper lbs.	Zinc lbs.	Gold ozs.	Silver ozs.
1986	6,825,958	9,443,172	5,282	36,701
1985	6,180,459	7,802,157	4,135	38,880

PROVEN RESERVES

	Tons	Copper %	Zinc %	Gold oz/ton	Silver oz/ton
December 31, 1986	1,236,600	2.28	7.0	0.057	0.54
December 31, 1985	1,250,500	2.32	6.1	0.051	0.49

Larger loading and haulage equipment were purchased and placed in service during the year and resulted in record production and the lowest unit operating costs in the history of the mine. Cash operating costs were $28.01/ton compared with $32.96/ton in 1985. The Company's share of production is forecast to rise to 202,500 tons in 1987 as a result of using the larger equipment for a full twelve-month period.

Underground exploration continued to be successful. Tonnage of new ore found was marginally less than ore mined leaving proven reserves at December 31, 1986 little changed from the prior year-end. Proven reserves are adequate for 6.1 years at current mining rates. The prospect of increasing the indicated life by further underground exploration is excellent.

Ore is presently trucked up spiralling ramps to a crusher station near the surface. As mining progresses to deeper levels haulage distances increase and the system eventually becomes prohibitively expensive. In December, the Trout Lake joint venturers voted, subject to the approval of their respective boards of directors, to sink a shaft at Trout Lake. The shaft and related underground development work is estimated to cost $17 million (MMR share $4.6 million) over a three-year period. The project will reduce the cost of bringing ore to surface and facilitate exploration at depth.

Exploration Operations

The Company starts exploration projects that are wholly-owned in the early stages with the expectation they will attract private sector participation. Conversely, the Company participates in worthwhile projects proposed by the private sector.

Exploration activities in the year covered 58 projects with total expenditures of $4,885,578. The Company contributed $2,650,594 (54%) — the balance, amounting to $2,234,984, was supplied by the private sector.

Direct project expenditures by the Company and its partners are summarized below.

No. of Projects	Type	MMR Expenditure	Partners' Expenditure	Total Expenditures
20	Wholly Owned	$ 644,395	—	$ 644,395
6	Joint Ventures managed by MMR	1,190,834	$1,273,252	2,464,086
32	Joint Ventures managed by partner	815,365	961,732	1,777,097
58		$2,650,594	$2,234,984	$4,885,578

FARLEY LAKE

Intensive exploration was carried out on the Farley Lake gold project 24 miles east of Lynn Lake by Manitoba Mineral (55.2%) acting as operator in a joint venture with Hudson Bay Exploration and Development Company Limited (44.8%). Jointly funded expenditures totalled $1,906,500.

Most of the work involved diamond drilling designed to define the extent of the gold mineralization discovered in 1985. A total of 120 holes were drilled (49,918 feet). Drill-indicated geological reserves are tabulated below.

Category	Tons	Gold oz/ton
Proven	538,000	0.212
Probable	686,000	0.166
	1,224,000	0.186

Preliminary metallurgical testing was done on samples from one of the three zones making up the reserves. Results indicate gold recoveries should be in the 80-90% range.

The 1987 budget of $1.9 million (MMR share $1.0 million) provides for additional diamond drilling (40,000 feet), detailed metallurgical studies and engineering work. Drilling is designed to upgrade reserves in the probable category and increase the reserve base.

OTHER SIGNIFICANT RESULTS

Copper-zinc mineralization with significant gold and silver values was discovered by Sherritt Gordon Mines Limited (54%) acting as operator in a joint venture with Manitoba Mineral (46%) near Wellmet Lake 35 miles north of Leaf Rapids. The mineralization was intersected by two drill holes. Further drilling is needed to evaluate the economic significance of the discovery.

A zone of zinc mineralization was discovered in the Snow Lake area by Hudson Bay Exploration and Development Company Limited (55%) acting as operator in a joint venture with Manitoba Mineral (45%). Further drilling is planned in 1987.

AREAS EXPLORED AND METALS SOUGHT

For ease of reference the Province is divided into a number of exploration areas (see map at front). A summary of Manitoba Mineral's expenditures by area is given in the following table.

Area	No. of Projects	MMR Expenditures	Expenditures % of Total
Lynn Lake	27	$1,959,634	73.9
Flin Flon	28	586,865	22.2
Southeast	3	104,095	3.9
	58	$2,650,594	100.0

The distribution of total expenditures by metals sought is: gold 56.2%; copper-zinc 41.4%; and nickel-copper 1.2%. Research on project generation accounted for 1.2% of total expenditures.

NEW AGREEMENTS

A new joint venture agreement was made with Hudson Bay Exploration and Development Company Limited covering Manitoba Mineral's Hargrave Lake project south of Snow Lake. Hudson Bay had earned a 45% interest in the project by year's end.

Homestake Mineral Development Company optioned a property near Elbow Lake east of Flin Flon in which Manitoba Mineral has a 26.6% interest. The remaining 73.4% interest is held by Armistice Resources Ltd.

MANITOBA MINERAL RESOURCES LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Manitoba Mineral Resources Ltd. as at December 31, 1986 and the statement of operations and the statement of changes in cash resources for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of Manitoba Mineral Resources Ltd. as at December 31, 1986 and the results of its operations and the changes in its cash resources for the year then ended in accordance with the accounting policies stated in note 3 to the financial statements applied on a basis consistent with that of the preceding year.

J. W. SINGLETON, C.A.,
Assistant Provincial Auditor.

February 17, 1987,
Winnipeg, Manitoba.

MANITOBA MINERAL RESOURCES LTD.

BALANCE SHEET
as at December 31, 1986
(with comparative figures at December 31, 1985)

ASSETS

	1986	1985
Current assets:		
Cash — in bank	$ 417,885	$ 200,197
— in trust with the Minister of Finance	2,725,000	2,370,000
Settlements and accounts receivable [Notes 3(b) and 6]	1,421,567	1,010,188
Accrued interest receivable	41,934	44,503
Prepaid expenses	4,229	4,056
Total current assets	4,610,615	3,628,944
Fixed assets [Notes 3(c) and (d)]:		
Field equipment	169,861	163,612
Office equipment	42,381	40,988
Office renovations	5,975	5,975
Vehicles	22,907	22,907
Exploration and development — Trout Lake mine	2,015,122	1,129,830
	2,256,246	1,363,312
Less: accumulated depreciation	184,822	162,729
accumulated amortization — Trout Lake mine	541,399	446,982
	726,221	609,711
Fixed assets, net	1,530,025	753,601
	$6,140,640	$4,382,545

Approved on behalf of the Board:

P. R. BROCKINGTON, *Director*

C. T. WILLIAMS, *Director*

The accompanying notes are an integral part of the financial statements.

LIABILITIES

	1986	1985
Current liabilities:		
Accounts payable	$ 236,251	$ 120,648
Total current liabilities	236,251	120,648

SHAREHOLDER'S EQUITY

Capital stock (Notes 1 and 4):		
Authorized — unlimited number of shares without par value for unlimited consideration		
Issued and fully paid —		
5 shares at $1.00 each	5	5
740,000 shares at $10.00 each	7,400,000	6,800,000
	7,400,005	6,800,005
Deficit, beginning of year	(2,538,108)	(2,004,864)
Net income (loss), Exhibit B	1,042,492	(533,244)
Deficit, end of year	(1,495,616)	(2,538,108)
Shareholder's equity, net	5,904,389	4,261,897
	$6,140,640	$4,382,545

The accompanying notes are an integral part of the financial statements.

Exhibit B

MANITOBA MINERAL RESOURCES LTD.

STATEMENT OF OPERATIONS

For the year ended December 31, 1986

(with comparative figures for the year ended December 31, 1985)

	Exploration	Trout Lake Mine	Total 1986	1985
Income:				
Sale of concentrates	$ —	$8,720,921	$8,720,921	$7,319,971
Interest earned	—	145,572	145,572	157,304
Oil production	4,895	—	4,895	7,690
Management fees	128,991	—	128,991	58,091
Option payments	1,917	—	1,917	667
Sundry	5,865	—	5,865	2,982
	141,668	8,866,493	9,008,161	7,546,705
Expenses:				
General and administrative, Schedule 1	310,345	50,111	360,456	300,276
Mining	—	3,613,298	3,613,298	3,490,173
Milling	—	1,229,744	1,229,744	1,081,862
Monitoring	—	17,160	17,160	22,082
Amortization [Note 3(d)]	—	94,417	94,417	84,400
Wholly owned ventures	644,395	—	644,395	1,493,169
Joint ventures (Note 7)	2,006,199	—	2,006,199	1,607,987
	2,960,939	5,004,730	7,965,669	8,079,949
Net income (loss), Exhibit A	$(2,819,271)	$3,861,763	$1,042,492	$ (533,244)

The accompanying notes are an integral part of the financial statements.

Exhibit C

MANITOBA MINERAL RESOURCES LTD.

STATEMENT OF CHANGES IN CASH RESOURCES

For the year ended December 31, 1986

(with comparative figures for the year ended December 31, 1985)

	1986	1985
Operating activities:		
Net income (loss)	$1,042,492	$ (533,244)
Items not involving cash		
Depreciation and amortization	121,406	109,812
	1,163,898	(423,432)
Net change in noncash working capital balances	(293,380)	(121,431)
	870,518	(544,863)
Financing activities:		
Shares issued	600,000	—
Financial resources generated from operating and financing activities	1,470,518	(544,863)
Investments:		
Fixed asset additions	12,538	13,934
Mine development expenditures	885,292	14,933
	897,830	28,867
Increase (decrease) in cash and equivalents	572,688	(573,730)
Cash and equivalents, beginning of year	2,570,197	3,143,927
Cash and equivalents, end of year	$3,142,885	$2,570,197

The accompanying notes are an integral part of the financial statements.

MANITOBA MINERAL RESOURCES LTD.

SCHEDULE OF GENERAL AND ADMINISTRATION EXPENSES

For the year ended December 31, 1986

(with comparative figures for the year ended December 31, 1985)

	1986	1985
Salaries, wages and employee benefits	$ 199,324	$ 164,345
Office rent	51,753	47,598
Equipment rental and maintenance	16,981	9,898
Accounting and audit	16,325	23,637
Legal	3,716	9,182
Telephone	10,014	8,572
Printing, postage and supplies	14,930	15,425
Directors' fees	1,800	2,000
Depreciation	26,989	25,412
Corporation capital tax	11,719	19,181
Other	19,296	18,822
	372,847	344,072
Revenue from rental of camp and field equipment	(12,391)	(43,796)
	360,456	300,276
Allocated to (Exhibit B):		
Trout Lake mine	50,111	50,338
Exploration	310,345	249,938
	$ 360,456	$ 300,276

The accompanying notes are an integral part of the financial statements.

MANITOBA MINERAL RESOURCES LTD.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 1986

1. *Status of the Company*

Manitoba Mineral Resources Ltd. is a crown corporation established under The Manitoba Natural Resources Development Act and incorporated under the Manitoba Corporations Act. The issued shares are held by the Government of the Province of Manitoba except for five shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba. The Company is authorized to issue an unlimited number of common shares for an unlimited maximum consideration.

2. *Nature of the Operations*

The Company undertakes exploration for minerals in the Province of Manitoba through wholly owned ventures and joint ventures. These joint ventures are operated by either the Company or the partners.

The Company also maintains an interest in the development, mining and processing of ore from the Trout Lake mine and the sale of the concentrates. This activity is further explained in note 5.

3. *Significant Accounting Policies*

(a) Accounting basis
The accounts are reflected on the accrual basis of accounting.

(b) Settlements receivable
The Company entered into a contract with Hudson Bay Mining and Smelting Co., Limited for the sale of its concentrates. Under the terms of the contract, the concentrates are deemed to be sold at the time of delivery of ore to the mill. The settlements receivable on sales of ore concentrates are recorded at the estimated net realizable value.

(c) Fixed assets and depreciation
Fixed assets are recorded at cost. Depreciation is taken on a straight line basis.

(d) Exploration and development expenditures and amortization
Exploration costs are charged to expense as incurred. They are capitalized when a mine is brought into production. The development costs associated with bringing a property into an operating mine status are capitalized. The capitalized costs in respect to an operating mine are amortized by the unit-of-production method based on estimated recoverable reserves.

4. Authority to Purchase Shares

The Government of the Province of Manitoba authorized the purchase of shares of the Company as a method of funding the Company's activities as follows:

Authority	Amount Used to Purchase Shares	Amount Authorized
The Loan Act, 1982	$ 2,800,000	$ 2,800,000
The Loan Act, 1983 (2)	4,600,000	5,600,000
The Loan Act, 1984 (2)	—	7,062,000
	$7,400,000	$15,462,000

During the year, 60,000 shares were issued to the Government of the Province of Manitoba at $10.00 per share.

5. Trout Lake Mine

The Trout Lake Mine is an unincorporated joint venture which is limited to the development and operation of the mine. The joint venture partners take the ore produced in proportion to their interests and are individually responsible for processing of the ore and sale of the concentrates.

The Company has a 27% interest in the joint venture. Hudson Bay Mining and Smelting Co., Limited has 44%, Granges Exploration Ltd. 19.833% and Outokumpu Oy 9.167%.

These financial statements reflect the Company's revenue and expenditures for its 27% interest in the joint venture operations and the additional activities outside of the joint venture, including arrangements for the processing of the ore, sale of concentrates, monitoring and administration.

6. Settlements and Accounts Receivable

	Dec. 31, 1986	Dec. 31, 1985
Settlements receivable on sales of Trout Lake mine concentrates [Note 3(b)]	$1,369,918	$ 965,975
Accounts receivable	51,649	44,213
	$1,421,567	$1,010,188

7. *Exploration Expenses — Joint Ventures*

	Dec. 31, 1986	Dec. 31, 1985
Joint ventures operated by Manitoba Mineral Resources Ltd.	$2,464,086	$1,233,940
Deduct: recoveries from joint venture partners	1,273,252	604,842
	1,190,834	629,098
Joint ventures operated by partners	815,365	978,889
	$2,006,199	$1,607,987

8. *Contingent Liabilities*

Authorized funds available from the Government of the Province of Manitoba, in the amount of $8,239,348 have been drawn down as conditional working capital grants since the inception of Manitoba Mineral Resources Ltd. and netted against the deficit account. No such grants have been drawn down since 1983. These grants are non-interest bearing and conditional on the basis that they become repayable to the Province if, as and when exploration projects become profitable ventures.

9. *Comparative Figures*

Comparative figures for the year ended December 31, 1985 have been restated to conform with the presentation adopted for the current year.